

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7028

BILL NUMBER: SB 402

NOTE PREPARED: Jan 4, 2011

BILL AMENDED:

SUBJECT: Accrual Accounting.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill requires state agencies and political subdivisions to maintain accounts on an accrual basis and to include information in budgets and financial reports on an accrual basis.

Effective Date: July 1, 2011.

Explanation of State Expenditures: *State Board of Accounts-* The State Board of Accounts (SBOA) would have to implement new rules, provide training of local budget officials in the use of accrual-based accounting, and develop new forms.

State Budget Agency- The State Budget Agency would have to submit supplemental information along with budget reports submitted after December 31, 2011, that shows full cost of operations for the affected budget year on an accrual basis.

State Agencies- All state agencies, after December 31, 2011, would have to maintain accounts on an accrual basis. State educational institutions would also have to maintain accrual-based accounts. It is possible some accounting software upgrades could be needed, depending on the ability of the current system to maintain and report accounts as the bill would require.

Given that the bill does not provide an appropriation, the source of funds and resources required to satisfy the requirements of this bill will depend on other legislative and administrative actions.

Supplemental Cost Estimate- The bill *does not* require the SBOA to produce accrual financial statements for

local units of government. However, if the SBOA produced those statements in order for those units to comply with the bill, the SBOA estimates the *net* cost to produce reports for the approximately 2,700 units that the SBOA regularly examines would be approximately \$9 M in FY 2012.

Explanation of State Revenues: There could be a negligible change in Utility Receipts Tax (URT) collections in the short term to account for municipal taxpayers that change their accounting method from cash to accrual as a result of the bill.

Explanation of Local Expenditures: Summary: Local elected office holders not familiar with accrual-based accounting may have to hire or have existing staff trained in accrual accounting. Software changes to account by the accrual method would also be necessary and would increase expenditures. The impact on local expenditures would depend on the action taken by local officials.

Background: Although there are some local units of government, such as universities and airport authorities, that already incorporate accrual-based accounting for annual reporting, the vast majority of local units of government, including all counties, cities, towns, and townships, currently use cash-based accounting.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: All local units of government currently using the cash-based method of accounting.

Information Sources: Bruce Hartman, State Examiner.

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